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C O N F I D E N T I A L SECTION 01 OF 02 BRATISLAVA 000577

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SUBJECT: TRANSPETROL DEAL IN LIMBO

REF: BRATISLAVA 529

Classified By: Ambassador Rodolphe Vallee for reasons 1.4 (b) and (d)

11. Summary. The GOS is now in a holding pattern on any prospective Transpetrol deal, as incoming Minister of Economy Lubomir Jahnatek reviews his options. The outgoing Minister of Economy had prepared a GOS buy-back from Yukos of its 49 percent share, and media reports floated that a deal was imminent, but these reports are premature at best. Jahnatek has spoken favorably of a buy-back option, but he is also meeting with other interested parties, and is in no position to make a decision at this time. The American firm M.E. Zukerman Investments (MEZI) has formally expressed interest in buying the Yukos share and has requested to meet with the new minister later this month. End Summary

Don't Call it a Buy-Back

12. In the last two months leading up to the change of government on July 6, the GOS aggressively pursued a plan to buy back from Yukos its 49 percent stake in Transpetrol. Outgoing Minister of Economy Jirko Malcharek grew convinced that the eastern Slovak company CSI-CD might win a pending court case regarding ownership of the company, and thereby gain from the GOS 34 percent ownership of Transpetrol, leaving the GOS with a small minority share and likely ensuring Russian control of the company. (For a detailed explanation of the case, see reftel.) In response, Malcharek assigned his senior personal staff to draw up a deal in which Yukos International would transfer its shares to a Slovak bank (VUB, Slovenska Sporitelna, and/or Tatra Banka), giving the GOS one-year exclusive rights to buy back these shares for the previously agreed price of 103 million USD. Early this week, rumors reached our Embassy that a buy-back deal with Yukos was ready, imminent, and just needed to be signed by the new Minister. The same rumor hit the local press on July 12. On further review, the source of the rumors was Malcharek himself, speaking to friends and journalists shortly after departing office.

13. There is no evidence that Yukos ever agreed on such a deal, however, nor has Jahnatek signed off on it. Jahnatek has said that a buy-back of shares from Yukos is a top priority, but has also insisted on reviewing all possible options. He is in the process of meeting with interested parties, sitting down with a Yukos representative on July 11, and with Peter Bachraty, local representative for the Polish government, on July 12. The review process is bound to be a bit slow due to lack of capacity and institutional memory. Ministry of Economy office directors in the Internal Markets,

International Trade, and Privatization departments all told us (somewhat bitterly) that Malcharek's personal staff drafted the buy-back proposal, and they had been mostly shut out of the process. They seemed to have no special loyalty to Malcharek's plan. The director of the Legislation and Law department, whom the Minister has tasked to review the deal, just started her two-week summer vacation. Also, the new minister has appointed almost none of his personal staff as of yet, so there is not a lot of firepower at the Ministry of Economy these days.

American Interest Becomes Official

¶4. On July 13, the American firm MEZI sent a letter to the new Minister of Economy expressing formal interest in purchasing the 49 percent of Transpetrol owned by Yukos. In its letter, MEZI emphasized its desire to implement projects that would increase transit volume, including implementation of the Druzhba-Adria pipeline extension, and potentially an Odessa-Brody-Druzhba route. The investment banking firm GlobalNet Financial Solutions would partner with MEZI in this deal. Patrick Mocatta, Managing Director of MEZI, will be in Slovakia in late July to discuss the proposed deal with the Ambassador and with relevant GOS officials; the exact dates of the visit have not yet been established.

¶5. Meanwhile, the Polish government continues to pursue a sale of Yukos shares to PERN. On July 11, the day before his meeting with Jahnatek, Bachraty told us that his employers are still negotiating with Yukos and hope to conclude a deal before Yukos bankruptcy proceedings commence later this year.

BRATISLAVA 00000577 002 OF 002

If a GOS buy-back through a Slovak bank does takes place, Bachraty said that PERN would likely not be interested in any sort of re-privatization process. He also reiterated the Polish government's request for US support for a sale to PERN, though he knew that American firms had expressed unofficial interest in purchasing Transpetrol shares, and seemed resigned to the idea that we would soon become competitors.

Fico on Transpetrol

¶6. In Ambassador Vallee's meeting this morning with Prime Minister Robert Fico, the Transpetrol situation was briefly discussed. Fico said that he would meet with Jahnatek later today to discuss what direction to take with respect to Transpetrol, and noted that there might be other alternatives to a buy-back from Yukos. The Ambassador noted American and Polish investor interest and that we stand by to be helpful.
VALLEE